

IV. Overview/Discussion of Fiscal Year 2018 Audit Summary

What is an audit?

Examine and verify management's assertions...provide an opinion

Includes findings and recommendations

Auditors evaluate risk

Auditors work for and should communicate results to the governing board (City Council)

The Reporting Package

1. Communication to Governance
2. Comprehensive Annual Financial Report (CAFR) – Includes audit opinion
3. Single Audit Report
4. HURF Report
5. Passenger Facility Charge Report
6. Landfill Assurance Report

Other Reports to be Issued

1. Annual Expenditure Limitation Report
2. HUD REAC

V. Discussion of 2018 Audit, Auditor Governance, Compliance and Communication Letters

Hours Total: 600 Budgeted Hours: 650

Weeks on-site Preliminary: 1-week Final Fieldwork: 2 weeks

Report Issuance Date: 12/20/2018

Actual Report date: 12/28/2018

Planned report date: 12/3/2018

Components of the CAFR

- Basic financial statement (audit opinion)
- Combining and individual fund financial statements and schedules ("in-relation-to" opinion)
- Financial Data Schedule ("in-relation-to" opinion)
- Required supplementary information, statistics section, and introductory section (Disclaimer)

Auditors rendered an unmodified opinion on the Financial Statements

Single Audit Report

- Report on internal control over financial statement assertions in accordance with Government Auditing Standards.
- Provide an opinion on the City's compliance with the Uniform Grant Guidance
- Report on Internal control over compliance
- Provide an in-relation-to opinion on the schedule of expenditures of federal awards.

Auditors rendered a clean opinion on compliance with the Uniform Grant Guidance

Control Deficiencies (in plain English)

- Deficiency – either an error occurred, or the design of the Organization’s internal controls may not prevent or detect an error
- Significant Deficiency – a deficiency occurred, but it is not material and, in all likelihood, would not cause something to be materially misstated, but it’s important enough that it should be reported to governance
- Material Weakness – a deficiency is present, and it is either material or it could cause a material misstatement

2018 Internal Control Communication

- Material Weaknesses Reported – None
- Significant Deficiencies Reported – None

Major Programs Tested 2018

- CFDA 14.871 – Section 8 Housing Choice Vouchers Cluster
- Significant Deficiencies Reported – None

Major Program Expenditures

- \$3,877,517
- Percentage Coverage – 41.4%

Major Program Findings

- No reported internal control findings over compliance
- No reported matters of noncompliance

Management Letter Comments

- None this year: Changes were being made to IT:

Rick Tadder explained that IT was a separate division and now it was decided to merge the two divisions into one and IT is now a section under Management Services. To work together as a support organization. Went through a hiring process CJ Perry, proposal to add a security officer to IT, structural reorganization was approved by Council

- Prior Year Management Letter Comment
- Information technology related recommendations
 - Excessive Privileges
 - Information Technology Policies
 - Disaster Recovery Plan
 - Password Configuration
 - Proactive Monitoring

Passenger Facility Charge (PFC)

- Provide an opinion on the City’s compliance with the Passenger Facility Charge Audit Guide for Public Agencies issued by the Federal Aviation Administration
- Report on Internal control over compliance
- Provide an in-relation-to opinion on the schedule of expenditures of federal awards

Auditors rendered a clean opinion on compliance with the PFC Audit Guide for Public Agencies

Highway User Revenue Fund Compliance

- Examination report to determine compliance as to whether expenditures from Highway User Revenue Fund monies were spent pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2.
- Audit Approach
 - Selected a sample of accounts payable disbursements to determine compliance with A.R.S.
 - Selected a sample of payroll disbursements to determine compliance with A.R.S.
 - Selected transfers from the highway user revenue fund to determine they were expended in accordance with A.R.S. in the fund it was transferred to.

Landfill Assurance Agreed-Upon Procedures

- Agreed-Upon Procedures over management's assertion about compliance with the local government financial test (LOGO) requirements under Municipal Solid Waste Landfill Criteria, 40 CFR, Part 258, Subpart G of the Resource Conservation and Recovery Act
- We do not provide an opinion, rather we will report on any deviations from the procedures performed.
- We did not report any exceptions related to our agreed upon procedures

Reports to be Issued

- Annual Expenditure Limitation Report
 - Expected report date: March 2019
 - Status: Waiting for AELR from City Management
- HUD REAC submission and certification
 - Expected report date: March 2019
 - Status: In process

Post Audit Report - Question and Concerns

No questions or concerns. All comments agreed with the Audit report

VI. Vote to Accept Reports

Rick Tadder to approve Annual Financial Reports
The Motion was unanimously approved
Finance will take to Council for Acceptance in March/April 2019

VII. City of Flagstaff FY 2019 Audit Planning

- Preliminary in May/June timeframe (1 week onsite)
- Follow-up Planning June, July and August timeframe
- Final Fieldwork (2 weeks onsite) End of September, Early October timeframe

NEW Audit Planning will now be online secure client portal

Initial Audit Plan

- 1-week Preliminary Fieldwork
 - Control testing of key audit areas and assertions
 - Preliminary determination of major federal programs
 - Compliance and control testing of major federal programs
 - Compliance and control testing of Passenger Facility Charges
 - No reported matters of noncompliance
- 2 weeks Final Fieldwork
 - Substantive testing of account balances
 - Reassess major federal programs
 - Complete outstanding items from preliminary fieldwork
- Audit areas expected to be assessed as higher risk
 - Cash and investments
 - Revenue recognition
 - Capital asset valuation and completeness
 - Schedule of Federal Expenditures accuracy and completeness
- Methodology to address higher risk areas (leases at Airport)
 - Larger emphasis on data analytics
 - Detailed tests of construction in progress
 - Detailed tests of the schedule of federal expenditures
 - Early communication related to new disclosures (leases)

Upcoming GASBS

- Governmental Accounting Standards Board Statement No. 83
 - Certain Asset Retirement Obligations; Effective for Periods Beginning After June 15, 2018 (effective for June 30, 2019)
- Governmental Accounting Standards Board Statement No. 88
 - Certain Disclosures Related to Debt, including direct borrowings and direct placements; Effective for Periods Beginning After June 15, 2018 (effective for June 30, 2019)
- Governmental Accounting Standards Board Statement No. 84
 - Fiduciary Activities; Effective for Periods Beginning After December 15, 2018 (effective for June 30, 2020)
- Governmental Accounting Standards Board Statement No. 90
 - Majority Equity Interests on Amendment of GASB Statements No. 14 and No.

61; Effective for Periods Beginning After December 15, 2018 (effective for June 30, 2020)

- Governmental Accounting Standards Board Statement No. 87
 - Leases Effective for Periods Beginning After December 15, 2019 (effective for June 30, 2021)

Questions:

Councilmember Charlie Odegaard asked if it is it's 3rd year and Brandi Suda mentioned it is 4th year with Clifton Larson Allen and It is a 4-year term with 3 possible one-year contract extensions. Charlie mentioned it is his 2nd year and approves of work.

GASBC: Sharman asked about GASBC Lease concerns of excessive accounting costs; Sharman mentioned to keep things the same because it will be a wash because it has to be reported anyway and have no financial effect in the end. After FY2021 it won't take any additional time because it will be a standard procedure.

VIII. Next Meeting Date and Topic of Discussion

- Next Annual Meeting of Audit Committee: February 5, 2020 at 2:00 PM in the Council Chambers at City Hall
- Sharman is requesting additional information to be presented at the next meeting: Information Technology procedures for next year
- The next training will from Clifton Larson will be in September 2019 due to April conflicts from prior year.
- Financial Reports can be viewed online for anyone to view at flagstaff.az.gov
- Grants module on website flagstaff.az.gov

IX. Adjournment

- Rick Tadder called to adjourn at 11:40 AM